REMARKS

Reconsideration of this application is respectfully requested in view of the foregoing amendment and the following remarks.

Claims 1-22 were pending in this application. By this Amendment, claims 9-11 have been amended, no claims have been canceled, and claims 23 and 24 have been added. Claims 9-11 have been amended to correct matters of form. Support for the new claims 23 and 24 can be found in the specification, for example, at paragraphs [0029]-[0030]. No new matter has been added. Accordingly, claims 1-24 will be pending upon entry of this Amendment.

In the Office Action mailed January 17, 2008, claims 1-5, 9-11, 13-15, and 19-21 were rejected under 35 U.S.C. § 103(a) as being unpatentable over U.S. Patent No. 6,687,681 to Schulz et al. ("Schulz") in view of U.S. Patent Application Publication No. US 2002/0174045 to Arena et al. ("Arena"); and claims 6-8, 12, 16-18, and 22 were rejected under 35 U.S.C. § 103(a) as being unpatentable over Schulz in view of Arena and in further view of Theo Francis, *Mutual-Fund Records Pay Off at Tax Time*, Wall Street Journal, New York, N.Y., Nov. 16, 2001, pg. C.1 ("Francis"). To the extent that these rejections might still be applied to the claims currently pending in this application, they are respectfully traversed.

Claim 1 is patentable over the cited references because the references do not disclose, teach, or suggest, a method for managing investment portfolios comprising, *inter alia*, rebalancing the investment portfolio if a short-term capital gain or losses, which would result from the rebalancing of the investment portfolio, falls within a threshold for short-term capital gains or losses.

The present invention makes the unique realization that "the transition from short-term gains to long-term gains is by far the biggest contributor to performance after tax" (paragraph [0017] of the specification) since short-term capital gains taxes are much less favorable than those imposed upon long-term capital gains. The present invention, accordingly, provides for a method and system for rebalancing an investment portfolio with a keen sensitivity to the particular tax aspects relevant to short term gains, and seeks to avoid transferring securities having high short-term gains or losses in favor of converting them into long-term gains or losses (by simply waiting for the requisite period before transferring). In this manner, the present invention *minimizes* the exposure to short-term capital gains taxes by establishing a maximum threshold value for short-term gain or losses and rebalancing when any securities chosen to be sold are *within* that threshold, thus minimizing realized short-term gains and losses.

The cited references are not at all directed to this novel approach to rebalancing portfolios, which is to avoid exposure specifically to short-term gain or losses. In simple terms, which will be described in greater detail below, Schulz performs quite the opposite tactic by *maximizing* capital gains losses (harvesting) and transferring securities when a *minimum* threshold for losses is *exceeded*. While Arena shows some concern for the impact on capital gains taxes as a general matter by evaluating the transaction costs for a particular rebalancing, Arena fails to specifically take short-term gain or losses into account in determining whether the portfolio is to be rebalanced.

The Examiner acknowledges in the second paragraph of page 3 of the Office Action that Schulz does not disclose this feature. Indeed, the system of Schulz is directed to harvesting tax losses by waiting for the expiration of the statutory wash sale period to replace securities that

have incurred losses in value. Under tax law, these losses are at that point "realized" and can be built up, even though the same securities are re-purchased, in order to offset gains and thus decrease capital gains taxes. Notably, Schulz does not make any distinction between short-term gain (or loss) and long-term gain (or loss). Schulz additionally provides for rebalancing portfolios to track a particular chosen market index, but this is a generally conventional process that is simply overlaid on the tax harvesting process and does not make considerations with respect to tax sensitivity.

For example, as shown in Figure 1 of Schulz, all of the tax considerations are made with respect to maximizing losses in step 20 (including steps 22, 24, and 26). Only after these considerations are made is the portfolio rebalanced in step 10 to track an index in a traditional manner and without regard to tax considerations ("upon completion of the tax loss harvest procedure, all of the selected accounts are rebalanced based on the capitalization weight and industry balance parameters" (col. 5, lines 50-53)). Thus, Schulz does not disclose, and describes no reason to provide for, rebalancing portfolios based on a computation of short-term gain or losses, as is claimed. The claimed invention seeks to minimize *any* exposure to short-term realizations (*i.e.*, it is not trying to maximize losses) while Schulz is specifically directed to maximizing and realizing capital losses.

Arena does not cure the deficiencies of Schulz. Arena deals with allocation of assets among a plurality of investment products held by a particular investor (rather than a single portfolio, as in the present invention). The system looks at the assets of all of the products combined to determine whether they are consistent with the investor's desired model and, rather than separately rebalancing each of the products, one product may be rebalanced so that even if

that product is not consistent with the model, the aggregation of all of the products will be. Upon selecting possible securities for trading, the system considers the total capital gains as a factor, but does not describe setting a threshold that determines whether the short-term capital gain or losses sufficiently low as to rebalance the investment portfolio, as claimed.

Further, there is no reason or motivation to combine Schulz and Arena, as they are directed to vastly different aspects of portfolio management and it is unclear how the teachings are compatible. Even if they were to be combined, the combination would not disclose, teach, or suggest the present claims. Schulz is directed to automatically harvesting capital losses while Arena is directed to tax efficient portfolio rebalancing. Where Schulz provides any hint of rebalancing a portfolio, it is only after the process of harvesting losses and such rebalancing process is not described with respect to tax sensitivity. Thus, there is no reason to combine the teachings of Arena with those of Schulz.

Further, as discussed above, Arena does not provide for a rebalancing an investment portfolio when a computed short-term capital gain or losses falls within a threshold. Accordingly, claim 1 is patentable over Schulz and Arena, alone or in combination. Claim 13 is similarly patentable over Schulz and Arena since it claims a system embodying the features of claim 1. Claims 2-11 and 14-21 are patentable over Schulz and Arena at least by virtue of their dependency from claims 1 and 13 and for the additional features recited therein.

For example, with respect to claim 9, which recites "rebalancing the investment portfolio if a total short-term capital gain or loss for the year, which would result from the rebalancing of the investment portfolio, falls within a threshold for short-term capital gains or losses." In paragraph #9 of the Office Action, the Examiner treated the term "for the year" at least in part as

a statement of intended use and presumably accorded it little patentable weight. Claim 9, however, is a method claim and therefore the intended use rationale does not apply. In a method claim, the Examiner must give full patentable weight to "use" steps since such steps are naturally the essence of a method. Only in apparatus, article, or product claims may the Examiner give less than full weight to recited uses or functional language, as explained in MPEP § 2114.

With regard to independent claims 12 and 22 and dependent claims 6-8 and 16-18, Applicant respectfully submits that the Examiner has not presented a *prima facie* showing of obviousness. Specifically, in addition to the deficiencies of Schulz and Arena mentioned above with respect to claim 1, the application of Francis is further without merit. Claim 12 recites a method for managing investment portfolios comprising, *inter alia*, *allocating randomly*, a plurality of times the securities to be sold to a plurality of tax lots associated with the securities to be sold; *computing* an implied total short-term capital gain or loss that would result from the sale; *selecting* from the plurality of random allocations the allocation that results in the smallest implied short-term capital gain or loss; and rebalancing *if the implied short-term capital gain or loss* for the selected random allocation *falls within a threshold* for short-term capital gains or losses.

The only step recited in claim 12 that the Examiner explicitly refers to in the Office Action is that pertaining to random allocation (discussed in paragraph #13 of the Office Action, with respect to claims 7 and 17). Even then, claims 7 and 17 do not recite the same language as recited in claims 12 and 22 since the latter recite allocating randomly, *a plurality of times*. The Examiner has additionally not addressed the "computing" step in claims 12 and 22, or the

"selecting" step. Accordingly, the rejections are deficient at least as a result of the Examiner's failure to address each and every claim element.

Notwithstanding the incomplete explanation of the rejection, Applicant respectfully submits that the portions of the rejection that are provided are flawed. The Examiner provides the following as the essential rationale supporting all of the rejections based on Francis: "Examiner interprets average purchase cost [described by Francis] for the fund they are selling as being allocated randomly to Applicant's tax lots in that the investor is not picking which lots of shares to sell either to avoid short-term capital gain or by way of FIFO." This premise is clearly in error.

Francis does indeed describe various means of accounting for capital gains or losses that are allowed by the IRS, including FIFO, average purchase cost, and specific identification. Francis advocates the benefits of specific identification but notes that that method involves drawbacks relating to maintaining complex record-keeping. In any case, the method of average purchase cost is in no way equivalent to a random allocation of securities to be sold to a plurality of tax lots as claimed. In average purchase cost, the *total cost paid* for *all* of the relevant securities in a given portfolio is divided by the *total number* of relevant securities. There is no randomness involved in such a process. The Examiner's attention is directed to paragraph [0029] of the specification for an explanation of the meaning of random allocation.

Further, in the context of the remaining features recited in claim 12, including allocating randomly a *plurality of times*, computing an implied short-term gain or loss *for each of the random allocations*, *selecting* from the plurality of allocations the smallest short-term capital gain or loss, etc., it is clear that the Examiner's construction of "average purchase cost" falls

apart quickly, as it is entirely unclear as to how the Examiner intends to fit an average purchase cost accounting method into the claimed process. Since there is no randomness or even variation associated with an average purchase cost calculation, even if average purchase cost can be considered random (which Applicant contends it is not), the idea of doing so "a plurality of times" and determining which allocation has the smallest short-term gain or loss becomes meaningless since there can only be one allocation (*i.e.*, the average purchase cost of a given set of relevant securities is dictated by formula and results in one unique value, whereas a plurality of random allocations of a given set of relevant securities naturally result in differing sets).

Accordingly, even if average purchase cost can be considered random (which Applicant contends it is not), it does not meet the additional features of the claim, it being noted that the Examiner has not even attempted to provide such an explanation of these additional features. As a result, claim 12 is patentable over Schulz, Arena, and Francis, alone or in combination. Claim 22 is similarly patentable over Schulz, Arena, and Francis since it claims a system embodying the features of claim 12. Claims 6-8 and 16-18 recite features similar to those recited in claims 12 and 22 and are patentable over Schulz, Arena, and Francis for at least the same reasons.

In view of the foregoing all of the claims in this case are believed to be in condition for allowance. Should the Examiner have any questions or determine that any further action is desirable to place this application in even better condition for issue, the Examiner is encouraged to telephone Applicant's undersigned representative at the number listed below.

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Respectfully submitted,

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